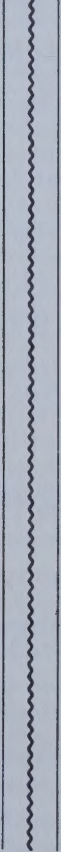


QUEENSTON GOLD MINES
LIMITED

A decorative graphic consisting of three vertical lines. The central line is a wavy, zigzag line, flanked by two straight vertical lines.

annual report
1976

QUEENSTON GOLD MINES LIMITED

DIRECTORS J. H. BOTSFORD
A. H. T. CROSBIE
G. F. DAY
R. M. GRAY
J. C. McBEAN
H. F. ZURBRIGG

OFFICERS A. H. T. CROSBIE, *Chairman of the Board*
R. M. GRAY, *President*
E. E. GORING, *Secretary*
F. D. BIGNELL, *Treasurer*

TRANSFER AGENTS CROWN TRUST COMPANY, Toronto, Ontario

STOCK EXCHANGE MONTREAL STOCK EXCHANGE

AUDITORS CLARKSON, GORDON & CO., Toronto, Ontario

HEAD OFFICE Suite 908, 40 University Avenue
Toronto, Canada
M5J 1T1

QUEENSTON GOLD MINES LIMITED

President's Report

To the Shareholders:

On June 4, 1976, Queenston shareholders ratified an option agreement among the Canadian Nickel Company Limited (Canico), an Inco Limited subsidiary, Upper Canada Resources Limited and Queenston Gold Mines Limited for exploration on certain Queenston and UCR gold prospects east of Kirkland Lake, Ontario. All initial conditions of the agreement were subsequently satisfied in July 1976 and as part of the agreement Canico made cash payments of \$75,000 to Queenston and \$25,000 to Upper Canada at that time. Field exploration commenced immediately on the 104 optioned claims and continued to January 12, 1977 before a temporary winter shutdown. Exploration work is expected to resume in the spring of 1977.

By agreement, Canico, the operator, was required to spend \$100,000 on property exploration by December 31, 1976 in addition to making the initial payment of \$100,000. Canico reports an unaudited total of \$338,880, including the cash payments, was spent on exploration by year-end. Also, by agreement, Canico must spend a combined total of \$400,000 on exploration and payments by December 31, 1977, and can earn an interest (40%) in the properties by spending an aggregate of \$1,400,000 on exploration and cash payments by December 31, 1980. Canico has the right to earn a 65% interest in the properties by completing aggregate expenditures and payments totalling \$2,750,000 by December 31, 1983.

The 104 "Queenston-Munro properties", subject to the above agreement, were described more extensively in the Special Notice to Shareholders forwarded in May 1976. Briefly, the properties lie between Kirkland Lake and Larder Lake and cover an approximate 5 mile length of the favourable Larder Lake gold bearing structure. The most easterly one mile length of this feature has been explored in some detail through surface and underground exploration to the 700-foot level, and 586,000 tons of mineralization grading 0.14 ounces gold have been indicated in four zones accessible through either the Anoki or the Queenston shafts. The adjacent 4 miles to the west cover the projection of the same structure but due to the presence of extensive overburden, this part of the structure had received almost no exploration prior to the present undertaking.

From July 1976 continuously until mid-January 1977, Canico has undertaken what amounts to a geological mapping program particularly in the western property area covered with extensive overburden. All claims have been covered with a well-controlled picket line grid with cutlines totalling in excess of 85 miles. All cutlines were covered with a detailed ground magnetic survey while approximately 24 miles of I.P. surveying were completed over portions of what is believed to be the favourable gold bearing horizon. The outcrop regions of the property have been mapped in detail and extensive petrographic laboratory work has been undertaken to establish the identity of the various rock formations present. To facilitate correlation of rock units from exposed locations to areas covered with extensive overburden, both magnetic and conductive geophysical patterns and 4,326 feet of core from 3 holes will be used for control. Additional control will be provided through overburden, till and bedrock samples recovered from 93 holes, drilled with the reverse circulation drilling method. The last drill hole and this initial field program were completed on January 12, 1977. Although a number of rock chips, till and core samples will be analyzed for gold, base metal and perhaps other elements, no results have been received to date.

In summary, all exploration under the Canico agreement has been set out to provide sufficient information for developing a bedrock geological map of the property. Once compiled, this map should allow for a more comprehensive program of drilling to investigate potential gold bearing zones later in 1977. Queenston directors and management are very pleased with the thorough and systematic manner in which Canico is conducting its investigation of these properties.

Queenston continues to own 117,000 shares of Bankeno Mines Limited. Bankeno in turn maintains a significant presence in oil and gas and mineral developments in the Canadian Arctic, with a 1.90% share interest in Panarctic Oils Ltd., and a 25% shareholding interest in Arvik Mines Ltd. In addition, Bankeno holds varying interests in 2,941,484 acres of Arctic oil and gas permits or a net interest in 248,784 acres, most of which are farmed out to Panarctic. It also maintains a 25% working interest with Cominco Ltd. (75%) for mineral exploration in the Cornwallis Island area of the Northwest Territories.

Plans to proceed with the development of Arvik Mines' zinc-lead mine on Little Cornwallis Island, N.W.T. were deferred in June 1976. It is understood the feasibility of developing the mine is currently being reviewed by Cominco Ltd. However, it appears that no firm decision can be made, for this project to proceed, until necessary agreements can be worked out with the Federal Government. Queenston continues to be optimistic about this commercial possibility. Panarctic is progressing in its efforts to establish commercial reserves of oil and gas in the Arctic. During 1976, additional drilling was completed in the Bent Horn oil discovery area, with limited success. Three gas wells were completed, one on Ellef Ringnes Island and two on the extension of the Hecla and Drake Point gas fields. Additional drilling will be undertaken in 1977.

During the year, the Company was saddened by the death of Mr. Evan Donaldson. Evan joined the Company as a director in 1960 and was one of its most ardent supporters. I would also like to express my appreciation to Mr. H. F. Zurbrigg and Mr. A. H. T. Crosbie who will be retiring from the Board this year, both of whom provided considerable time and advice during this important year. Details of the forthcoming Annual Meeting will be contained in the Notice, Information Circular and Proxy which are being prepared separately.

On behalf of the Board of Directors

R. Michael Gray
President

Toronto, Ontario
March 4, 1977

QUEENSTON GOLD

(Incorporated under the laws of the Province of Ontario)

Balance Sheet
September 30, 1976

(with comparative figures for 1975)

ASSETS

	1976	1975
CURRENT:		
Cash	\$ 20	\$ 1,332
Accounts receivable	582	
	<u>602</u>	<u>1,332</u>
INVESTMENTS, at cost (notes 1(b) and 2)	272,759	272,759
MINING PROPERTIES, at cost (notes 1(a) and 6)	383,368	381,368
DEFERRED EXPENDITURES (note 1(a)):		
Exploration and development	970,227	1,040,663
Head office and administration	218,729	171,689
	<u>1,188,956</u>	<u>1,212,352</u>
On behalf of the Board:		
R. M. GRAY, Director		
H. F. ZURBRIGG, Director		
	<u>\$1,845,685</u>	<u>\$1,867,811</u>

(See accompanying notes)

AUDITOR'S REPORT

To the Shareholders of
Queenston Gold Mines Limited:

We have examined the balance sheet of Queenston Gold Mines Limited as at September 30, 1976 and the statements of deferred expenditures and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

MINES LIMITED

(In accordance with the laws of Ontario)

Sheet
30, 1976

(at September 30, 1975)

LIABILITIES

CURRENT:	1976	1975
Due to associated company	\$ 51,893	\$ 75,972
Accrued charges	3,203	1,250
	<u>55,096</u>	<u>77,222</u>
 SHAREHOLDERS' EQUITY:		
Capital —		
Authorized:		
6,000,000 shares without par value		
Issued and fully paid:		
4,700,000 shares	1,775,421	1,775,421
 Retained earnings (unchanged during year)	15,168	15,168
	<u>1,790,589</u>	<u>1,790,589</u>
	<u>\$1,845,685</u>	<u>\$1,867,811</u>

(See notes)

REPORT

In our opinion, these financial statements present fairly the financial position of the company as at September 30, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
December 1, 1976.

G. L. Jackson, Gordon & Co.

Chartered Accountants

QUEENSTON GOLD MINES LIMITED

Statement of Deferred Expenditures

YEAR ENDED SEPTEMBER 30, 1976

(with comparative figures for the year ended September 30, 1975)

	1976	1975
EXPLORATION AND DEVELOPMENT:		
Balance, beginning of year	\$1,040,663	\$1,007,445
Add —		
Realty, school and acreage taxes	914	1,382
Exploration costs	1,920	22,795
Consulting fees	1,730	9,211
Expenditures for year	4,564	33,388
Less sundry proceeds (note 6)	75,000	170
Increase (Decrease)	(70,436)	33,218
Balance, end of year	<u>\$ 970,227</u>	<u>\$1,040,663</u>
HEAD OFFICE AND ADMINISTRATION:		
Balance, beginning of year	\$ 171,689	\$ 157,935
Add—		
Printing and stationery	3,685	1,853
Transfer agent and registrar	2,964	2,856
Ontario capital tax	3,393	1,536
Legal and audit	16,421	1,790
Rent and management fee	10,000	5,000
Interest	9,861	
Travel	689	589
Miscellaneous	27	130
Expenditures for year	<u>47,040</u>	<u>13,754</u>
Balance, end of year	<u>\$ 218,729</u>	<u>\$ 171,689</u>

(See accompanying notes)

QUEENSTON GOLD MINES LIMITED

Statement of Changes in Financial Position

YEAR ENDED SEPTEMBER 30, 1976

(with comparative figures for the year ended September 30, 1975)

	1976	1975
SOURCE OF FUNDS:		
Sundry proceeds (note 6)	\$ 75,000	\$ 170
APPLICATION OF FUNDS:		
Purchase of mining properties	2,000	
Exploration and development expenditures	4,564	33,388
Head office and administration expenditures	47,040	13,754
	<u>53,604</u>	<u>47,142</u>
INCREASE (DECREASE) IN WORKING CAPITAL DURING YEAR	21,396	(46,972)
WORKING CAPITAL DEFICIENCY, beginning of year	<u>75,890</u>	<u>28,918</u>
WORKING CAPITAL DEFICIENCY, end of year	<u>\$ 54,494</u>	<u>\$ 75,890</u>

(See accompanying notes)

QUEENSTON GOLD MINES LIMITED

Notes to the Financial Statements

SEPTEMBER 30, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Mining properties and deferred expenditures

The company owns twelve patented mining claims and has a 75% interest in a further thirty-eight patented and sixty-six unpatented mining claims in the Kirkland Lake area which are carried at cost, less proceeds from sales of highway and hydro rights. Exploration, development, head office and administration expenditures are deferred until such time as the company's properties are brought into production, sold or abandoned. The mining properties and the related deferred expenditures are amortized against revenue if the properties are brought into production or charged against deficit if the properties are sold or abandoned.

(b) Investments —

Investments are carried at cost except where there has been a decline in their value which is considered to be other than a temporary decline, in which case the investments are written down to recognize the loss.

2. INVESTMENTS

Investments consist of the following:

	1976			1975		
	Number of shares	Cost	Market value	Number of shares	Cost	Market value
Upper Canada Resources Limited	5,000	\$ 5,859	\$ 5,050	5,000	\$ 5,859	\$ 5,200
Bankeno Mines Limited	117,000	266,900	169,650	117,000	266,900	217,350
		<u>\$ 272,759</u>	<u>\$ 174,700</u>		<u>\$ 272,759</u>	<u>\$ 222,550</u>

3. INCOME TAXES

Under the provisions of the Income Tax Act, exploration and development expenditures are deductible in determining taxable income. Any expenditures not deductible in a given year may be carried forward and applied against future income. The company has approximately \$350,000 of expenditures so available. In addition, the company has losses for tax purposes of \$24,944 which may be carried forward and applied to reduce future taxable income.

The availability of these losses expires as follows:

1977	—	\$ 4,505
1978	—	5,727
1979	—	6,817
1980	—	7,895
		<u>\$24,944</u>

4. STATUTORY INFORMATION

No remuneration was paid to directors or officers during the year.

5. ANTI-INFLATION PROGRAM

Under the federal government's Anti-Inflation Program (presently scheduled to be in force until December 31, 1978), the company is subject to mandatory compliance with legislation which controls shareholder dividends.

6. EXPLORATION PROGRAM

In October 1975, the company acquired a 50% undivided interest in 66 unpatented mining claims owned by Upper Canada Resources Limited as consideration for providing to Upper Canada Resources certain information on these claims.

On April 28, 1976, Queenston and Upper Canada Resources entered into an agreement with respect to their respective holdings in the Kirkland Lake area, whereby 37 patented mining claims owned by Queenston were combined with one patented claim, and 66 unpatented mining claims in which each company owned a 50% undivided interest, to form a group of 38 patented and 66 unpatented mining claims in which Queenston has a 75% undivided interest and Upper Canada Resources has a 25% undivided interest.

On April 28, 1976, the company and Upper Canada entered into an agreement with Canadian Nickel Company Limited (Canico) which was granted the option to earn up to a 65% undivided interest in the said total group of claims. Under the terms of the option, Queenston and Upper Canada Resources received from Canico \$75,000 and \$25,000 respectively. Canico is also obligated to incur exploration expenses on the claims of \$100,000 by December 31, 1976 and a further \$200,000 by December 31, 1977. Subject to making such expenditures Canico has the option to make additional exploration expenditures of \$1,000,000 by December 31, 1980 and thereby earn a 40% undivided interest in the said total group of claims. If Canico fails to earn its 40% undivided interest in the claims, the ownership of the claims will revert to the position prior to April 1976. Canico can earn an additional 25% undivided interest therein by exercising an option to make further exploration expenditures of \$1,350,000 by December 31, 1983. The agreement provides for Canico to finance exploration of the claims to a feasibility stage and subsequently for all parties to contribute pro rata to the financing of any mining venture. Each party's interest in the claims will be reduced in accordance with the agreement to the extent that it fails to contribute its proportionate share of such financing.

If, pursuant to the foregoing, Queenston's interest is reduced to 7.5%, this interest shall be automatically converted into a 7.5% royalty interest on the net proceeds from operations on the claims.

7. COMPARATIVE FIGURES

Certain of the comparative figures for 1975 have been re-stated to conform with the presentation adopted in 1976.